

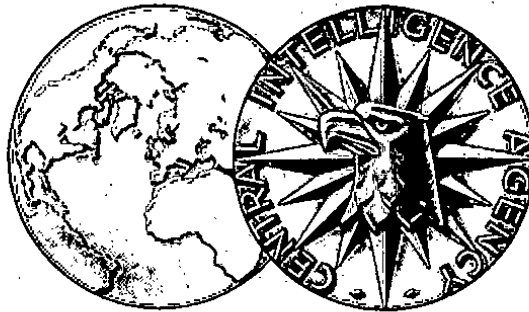
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WEEKLY SUMMARY



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H I G H L I G H T S

Interest in Europe this week centered on the efforts of French Premier Bidault to obtain parliamentary approval for the 1950 budget (see page 3). Even if Bidault manages to squeeze his budget past the Assembly, his regime will be constantly threatened by growing disagreement among coalition parties on basic economic issues.

In two areas of the Near and Middle East the situation is potentially explosive. Syrian civilian and army leaders are still unable to reach agreement, and, despite the formation of a new cabinet, another coup, perhaps leading to a military dictatorship, is a distinct possibility (see page 9). Meanwhile, relations between India and Pakistan have taken a turn for the worse as a result of India's refusal to accept Security Council President McNaughton's proposal on Kashmir and India's decision to curtail coal shipments to Pakistan (see page 8).

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W E S T E R N E U R O P E

GERMANY

Foreign Trade The recent deterioration in the foreign trade position of West Germany threatens ECA's 1949-50 targets for that country, and may cause West Germans to expand their trade with the Soviet-Satellite area. An improvement of West Germany's foreign trade position will depend largely upon whether other West European nations match the far-reaching trade liberalization measures recently adopted by West Germany. These include substantial modifications in the dual pricing system for coal, provisions in recent trade agreements for freer convertibility of currencies, and removal of import quotas on a wide range of products.

Since European currency devaluation, West German import costs have risen only slightly; on the other hand, West German exports have declined. West German trade liberalization measures will probably restore imports from other West European countries to the pre-devaluation level, but exports will remain low until other countries make reciprocal trade concessions. In addition to this serious contraction of German trade in Europe, there has been a general reduction of dollar proceeds resulting from decreased exports not only to countries which have devalued their currencies but to other countries, such as those in Latin America, where West Germany faces severe competition. In their desire to improve their foreign trade position, West Germans may channel their trade toward the Soviet orbit to an extent that might prove politically as well as economically embarrassing to US efforts to integrate the Federal Republic with Western Europe.

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FRANCE

Political Crisis A state of extreme political tension will continue in France during the next few weeks as debate on the 1950 budget sharpens existing disagreements on basic economic issues between the Socialists and the right-of-center Radical Socialists. Although the National Assembly has already approved by a comfortable majority the articles in the budget relating to civil and military expenditures, Premier Bidault has demanded another vote of confidence on the more controversial issue of new taxes. Even if the budget bill is approved, the Bidault regime will be constantly threatened by disagreements among the coalition parties and by the stiff conditions laid down by the Socialists and Radical Socialists for continued participation in the government.

ITALY

Cabinet Change The change in the Italian Cabinet scheduled for January will probably result in more extensive Christian Democratic control. The formation of a single-party government, however, is unlikely until after the local elections in the spring of 1950. Various elements within the Christian Democratic Party are advocating strongly that the Party govern without having to reconcile its policies or share credit for its achievements with the minority parties in the coalition. Premier De Gasperi, however, still desires to maintain a coalition government and share responsibility for government policy. In addition, the minority parties, although increasingly uneasy in a government which permits them little authority, have of themselves little

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ITALY

prestige and will probably remain in the coalition in the hope of being in a better position to organize for the spring elections. If the minority parties do well in these elections, they will feel more inclined to remain in the government, and the Christian Democrats will feel less inclined to govern without them. A poor showing at the polls would make their exclusion more likely.

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E A S T E R N E U R O P E

Anti-West Campaign The current anti-Western campaign in Eastern Europe is apparently designed to curtail Western influence rather than to prepare for the early elimination of Western diplomatic missions in the Satellites. Western diplomatic posts will be permitted to remain as long as the USSR maintains the fiction of Satellite independence and the missions can be profitably used as a focus for anti-Western propaganda. The Kremlin probably considers it necessary, however, to eliminate non-diplomatic Western agencies and sharply reduce the effectiveness of Western diplomatic missions in order to: (1) eliminate the moral support they afford to Communists with nationalistic tendencies; (2) reduce the quality and quantity of intelligence information obtained from the area; and (3) demonstrate Soviet omnipotence toward the West, thus further dashing the hope of the people for eventual liberation from the Soviet yoke. In the campaign against the Western missions, the Satellites are at an advantage because Satellite missions in the US are smaller than US missions and hence less vulnerable to retaliatory action, and the USSR is convinced that the US will make every effort to retain its missions in Eastern Europe, not only as listening posts but also as evidence of continued US concern with the welfare of the East European peoples.

Ruble Clearing System Recent reports of new commercial and financial arrangements in the Soviet orbit suggest that the USSR is making preliminary preparations for introducing the ruble as the standard monetary unit for all foreign exchange transactions

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within the Soviet orbit. Hungary has concluded its 1950 trade pacts with Rumania and Poland in terms of rubles; Hungarian-Polish clearing balances listed in dollars will be converted into rubles as of 31 December 1949; Bulgaria has ceased accepting lei from Rumania; and joint Soviet-Rumanian enterprises will stop accepting payments in lei after 15 January 1950. The establishment of a "ruble clearing system" under the auspices of the Soviet-dominated Council for Economic Mutual Assistance is probably part of Soviet plans for increased economic integration of the Soviet sphere during 1950. Such a clearing system would permit more efficient use of Cominform foreign exchange resources and would establish a united front designed to counter the proposed Western European economic integration. A ruble clearing system would also make possible better accounting of orbit balance of payments and at the same time provide the Communists with an exchange media to replace the US dollar.

YUGOSLAVIA

UK Trade Pact Conclusion of the Yugoslav-UK Five Year Trade Agreement is an important step in Yugoslavia's program to expand its trade relations with the West following the economic boycott by the USSR and its Satellites. Although Yugoslav-UK trade may not actually reach the total provided for in the agreement (100 million pounds each way in the five-year period); it will be a substantial contribution to the development of the Yugoslav economy and will improve Yugoslavia's chances of obtaining a loan from the International Bank. More important, however, is British agreement to grant Yugoslavia

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YUGOSLAVIA

a six-year credit of \$23,400,000 as well as short-term advances. These credits, coupled with the proceeds from Yugoslav exports of timber, non-ferrous metals, and corn, will enable Yugoslavia to purchase the capital equipment and raw materials immediately necessary for further industrial development, strengthen Yugoslav economic ties with the West, and materially improve Tito's ability to combat Cominform pressures. Despite Yugoslavia's manifest eagerness to conclude the treaty, further Yugoslav rapprochement with the West will be limited by Tito's efforts to maintain his status as the only true interpreter of Marx and Lenin, and in its dealings with the West the Tito regime will continue to follow a line dictated primarily by motives of expediency and self-preservation.

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NEAR EAST - AFRICA

INDIA-PAKISTAN

Situation Critical The cold war between India and Pakistan has again become aggravated as a result of two announcements emanating from New Delhi during the past week. By its initial blunt rejection of Security Council President McNaughton's proposals on Kashmir, India stimulated Pakistani fears that a fair settlement could not be obtained through negotiation; and even though India has now modified its rejection, it has still to provide tangible evidence of a willingness to compromise in the interest of a peaceful settlement. At the same time, by "temporarily" curtailing coal exports to Pakistan--on the ground that the latter has held up raw jute shipments in violation of the 1949 inter-dominion trade agreement--the Indians have attacked Pakistan with the most powerful economic weapon at their disposal. Because Pakistan is almost completely dependent on Indian coal to keep its railroads running, the embargo, should it continue, will have most serious effects on the Pakistani economy. In particular, it is likely to create famine conditions in the isolated jute-producing province of East Bengal, many sections of which are deficient in food production. Such a famine would be exploited by the apparently well-organized anti-Pakistan movement operating from bases across the Indian border and might result in the collapse of Pakistani authority in East Pakistan and its subsequent absorption by India.

These developments, threatening both Pakistan's hopes of obtaining Kashmir and its control over East Pakistan, are bound to stimulate the spirit of desperation which has been slowly growing in Pakistan. If a conviction that the

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INDIA - PAKISTAN

national existence is at stake becomes sufficiently widespread, sentiment in favor of war with India might become dominant. Under the circumstances, the Government of Pakistan would be willing to accept aid from any available quarter. Such a situation would provide an attractive opportunity for the USSR, which--though it might be unwilling to intervene openly against India--might utilize the imminent Security Council discussion of the Kashmir issue to encourage Pakistan or otherwise promote an outbreak of hostilities.

SYRIA

Possible Coup Continuing disagreement between civilian and army leaders suggests that another Syrian coup (the fourth since March 1949), perhaps leading to a military dictatorship, is a distinct possibility. Efforts to form a civilian cabinet since the last coup on 18 December have been complicated by the Syrian Army's insistence that although a civilian government is acceptable in principle, the actions of such a government must meet with army approval. Political leaders have been reluctant to participate in any government under these conditions, and it is problematical whether the newly-formed coalition cabinet headed by Khaled al Azm, a leading independent, will be able to control the situation and stay in power. The new government is jeopardized not only by army interference but also by the fact that the Populist Party, the strongest political group in Syria, is represented in the cabinet only by minor figures in subordinate roles. The Populist leaders apparently have refused to associate themselves with the coalition and will almost certainly attempt to undermine it.

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SYRIA

These developments threaten to leave a vacuum which army leaders may be unable to resist filling. The major issue between the Populists and the army is the question of Syrian-Iraqi union. Current Syrian Army leaders are continuously threatened by Populist support for union. Furthermore, present army leaders may feel impelled toward more drastic measures to safeguard their newly won position in the face of the reported refusal of certain army units to recognize their authority.

Despite numerous rumors, it is unlikely that either Iraq or Jordan will actively intervene in Syrian affairs. Egypt and Saudi Arabia have all but threatened reprisals against any state which interferes in the Syrian situation. Iraq's new government is much less enthusiastic about union with Syria than was its predecessor under Nuri Said, and it is eager to improve Iraqi-Egyptian relations. Furthermore, the Western Powers have adopted the attitude that intervention by Syria's neighbors would be unwise. It thus appears that Syria will be left to work out its own problems. So long as the line between civilian and military authority remains undefined, however, instability may be expected to continue.

LEBANON

Government Shaky Political tension is increasing in Lebanon, and the government may fall. Prime Minister Riad Solh, although generally unpopular for a long time, has managed to retain his position through the support of President Khuri. It now appears, however, that opposition groups are gaining

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LEBANON

strength and that the President (whose relations with Solh are less cordial than formerly) may bow to popular feeling and get rid of the Prime Minister. It is improbable, however, that a dangerous situation will develop. A new government might make some modification in internal policies, but Lebanese relations with the West and with other Arab countries could be expected to remain substantially the same.

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F A R E A S T

CHINA

Sino-Soviet Friction Resentment against Soviet encroachment and exploitation is apparently increasing in Communist China. Particularly strong in non-Communist circles, this anti-Soviet feeling is reportedly also spreading to members of the Chinese Communist Party. Principal reasons for growing friction between the USSR and the Chinese Communists include: rumors of large food shipments from China to the USSR; Soviet refusal to return machinery to Manchuria; Soviet oppression of the Manchurian people; Soviet profiteering in trade relations; the interference of Soviet advisers in China; and the inadequacy of Soviet technicians. Non-Party circles are beginning to blame the USSR not only for genuine Soviet malpractices but for certain deficiencies of the Chinese economy and mistakes of the Chinese Communists. Some circles of the Communist Party are reported to share in the anti-Soviet feeling, and the Party leadership may choose to change its tactics in presenting Sino-Soviet "friendship" to both the Party rank-and-file and the Chinese people generally. However, the Party leadership has probably not wavered in its determination to maintain close relations with the Soviet Union. The anticipated Sino-Soviet treaty is likely to extend and formalize the very Soviet privileges which have occasioned resentment. Although the Party leadership may regret certain aspects of Sino-Soviet relations, there is no evidence that the "alliance" is insecure.

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INDOCHINA

UK-Bao Dai The UK Government is considering how to make some gesture of public encouragement to the Bao Dai regime in Indochina to balance British recognition of Communist China scheduled for 6 January 1950. The Foreign Office believes that Bao Dai is the only present alternative to Communist control of Indochina, which is considered the critical point in stopping the advance of Communism into Southeast Asia. The UK has been reluctant, however, to recognize Vietnam as an associated state in the French Union until there is some evidence of a real transfer of power, and has repeatedly needed the French to ratify the 8 March 1949 agreements. Nevertheless, the British are aware that recognition of Communist China without some comparable action towards Bao Dai would automatically weaken his position while strengthening that of Ho Chi Minh. The present British formula calls for a public announcement of de facto UK recognition of the Bao Dai regime, immediately after the Commonwealth Foreign Ministers Conference at Colombo, and the elevation of the consul general at Saigon to the rank of minister. The UK will attempt at the Colombo Conference to obtain parallel action by the other Commonwealth countries, but is not confident of obtaining general Commonwealth agreement.

BURMA

Chinese Recognition Burmese recognition of the Chinese Communist regime, although reflecting no fundamental change in either Burmese foreign policy or political orientation, may eventually facilitate Burma's alignment with the Soviet orbit. Strongly sympathetic

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BURMA

with at least the publicized objectives of the Chinese Communists, the left-wing Burmese Government recognized the regime primarily in response to such practical political considerations as: (1) pressure from the majority Socialist Party; (2) a desire to avoid antagonizing the Chinese Communists; and (3) the belief that aggressive Chinese action might be forestalled, especially along the ill-defined Sino-Burmese border in the north. Meanwhile, E. Maung, one of the more conservative members of the Cabinet and perhaps the ablest, has resigned as Foreign Minister, and Socialists may again assume Cabinet posts. A more leftist Cabinet would be more inclined to permit an early exchange of diplomatic personnel, and these two factors would substantially increase the prospects for Burmese alignment with the Soviet orbit.

JAPAN

PW Question The whereabouts of some 375,000 Japanese prisoners of war in Soviet custody is causing mounting concern among the Japanese and considerable unfavorable publicity for the USSR. US questions on the subject, raised in the Allied Council for Japan, resulted in a "walkout" by the Soviet representative. The Japanese Diet has begun an investigation of the problem, and several hundred relatives of Japanese PW's recently picketed the office of the Soviet member of the Allied Council, petitioning for information regarding those PW's still unaccounted for. In retaliation, the Kremlin is apparently trying to distract attention from the unfavorable

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JAPAN

propaganda on the Japanese PW issue by publicizing the Soviet war crimes trials of twelve Japanese PW's charged with preparing and carrying out bacteriological warfare. In addition to muddying the waters on the PW issue, the USSR is using propaganda on the bacteriological warfare trial to demonstrate the power of the Soviet Union in the hope of creating confusion and uncertainty in Japan regarding the advisability of signing a separate peace treaty at this time.

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WESTERN HEMISPHERE

Caribbean Tension The current differences between the Dominican Republic and Cuba, and between the Dominican Republic and Haiti, have resulted in increased tension in the Caribbean. Dominican dictator Trujillo has accused Cuba of harboring anti-Trujillo armed forces and has recently acquired war powers from his rubber-stamp congress. It is unlikely that the Inter-American Peace Committee, which now is considering this problem, will be able to suggest a satisfactory solution for Cuban-Dominican differences. Moreover, reasonable evidence exists of Dominican complicity in a recent plot to overthrow the Haitian Government by assassinating President Estimé and other high officials. The exposure of this plot has exacerbated the traditional mistrust between the two countries, which is based on Dominican fear of assimilation by the more numerous black Haitians. While neither of these current problems is expected to result in open conflict, they have aggravated existing tensions between the "dictatorships" and the "democracies" in the Caribbean. For the near future there is virtually no prospect for solution of the basic problems which gave rise to the present situation.

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